

Message Text

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PAGE 01 OTTAWA 04213 01 OF 03 260012Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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R 252349Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8483
INFO AMCONSUL CALGARY POUCH
AMCONSUL HALIFAX POUCH
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER POUCH
AMCONSUL WINNIPEG POUCH

C O N F I D E N T I A L SECTION 01 OF 03 OTTAWA 04213

DEPT. PASS CEA, TREAS, FRB, DOE

E.O. 11652: GDS
TAGS: ECON, ENRG, CA
SUBJECT; GOC ANNOUNCES FURTHER ECONOMIC POLICY MEASURES

REF: (A) OTTAWA 4095, (B) OTTAWA 3857

1. SUMMARY. DETAILS OF TRUDEAU'S AUGUST 1 ECONOMIC
POLICY INITIATIVE CONTINUED TO UNFOLD AS FINANCE MINISTER
CHRETIEN ANNOUNCED CDOLS 1.3 BILLION IN ADDITIONAL
SPENDING CUTS AND A SHIFT OF FEDERAL ASSISTANCE TOWARD
LOWER AND MIDDLE INCOME GROUPS. NEW MEASURES ALSO
INCLUDE REDUCTION IN GASOLINE EXCISE TAX, PROPOSAL TO
FOREGO INCREASE IN CRUDE OIL PRICES SLATED FOR JANUARY 1,
1979 AND DECONTROL OF NATURAL GAS PRICE. SPENDING CUTS
CONFIDENTIAL

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PAGE 02 OTTAWA 04213 01 OF 03 260012Z

ANNOUNCED SINCE AUGUST 1 TOTAL CDOLS 3.7 BILLION, WHILE
REDUCTIONS IN GOVERNMENT REVENUES COME TO ABOUT CDOLS
800 MILLION. SPOKESMEN HAVE SAID ADDITIONAL SPENDING CUTS
OF CDOLS 500 MILLION AND STIMULATORY MEASURES ARE TO BE
ANNOUNCED SOON. GOC MOVES CLEARLY CONSTITUTE AN ELECTION
BUDGET AIMED AT CREATING PERCEPTION THAT IT IS ACTING
DECISIVELY IN COMING TO GRIPS WITH DIFFICULT ECONOMIC

PROBLEMS. WHILE MACRO ECONOMIC IMPACT OF PACKAGE STILL UNCERTAIN, IT WILL PROBABLY BE NEUTRAL THIS YEAR AND TURN SOMEWHAT RESTRICTIVE IN 1979. END SUMMARY.

2. ON EVENING OF AUGUST 24, FINANCE MINISTER CHRETIEN IN TELEVISED STATEMENT, UNVEILED FURTHER DETAILS OF ECONOMIC POLICY PACKAGE ANNOUNCED BY TRUDEAU AUGUST 1 (REF B). DISCUSSION OF MAIN INITIATIVES FOLLOW BELOW.

3. SOCIAL BENEFITS: (A) MONTHLY FAMILY ALLOWANCES WILL BE REDUCED TO CDOLS 20 PER CHILD FROM CDOLS 26 PER CHILD, EFFECTIVE JANUARY 1, 1979. THE PRESENT TAX CREDIT OF CDOLS 50 PER CHILD WILL BE ELIMINATED AND THE TAX EXEMPTION FOR CHILDREN OVER 16 WILL BE REDUCED. CUTS IN FAMILY ALLOWANCES WILL PRODUCE ANNUAL SAVINGS OF CDOLS 690 MILLION, GIVING GOC ROOM TO IMPLEMENT GRADUATED TAX CREDIT OF UP TO CDOLS 200 PER CHILD. ONLY THOSE WHOSE INCOME IS LESS THAN CDOLS 18,000 WILL RECEIVE FULL AMOUNT OF CREDIT. CREDIT WILL BE REDUCED BY 5 PERCENT OF AMOUNT BY WHICH FAMILY INCOME EXCEEDS CDOLS 18,000. PRESENT FAMILY ALLOWANCE SYSTEM DOES NOT GEAR SIZE OF BENEFIT TO INCOME. THUS, MEASURE IS DESIGNED TO CHANGE PROGRAM TO BENEFIT LOWER AND MIDDLE INCOME GROUPS.

(B) OLD AGE PENSIONS: GUARANTEED INCOME SUPPLEMENT (GIS) TO AGED WILL BE INCREASED BY CDOLS 20 PER MONTH. MEASURE WILL BENEFIT AN ESTIMATED 1.3 MILLION RECIPIENTS.
CONFIDENTIAL

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PAGE 03 OTTAWA 04213 01 OF 03 260012Z

(C) EFFECT OF CHANGES IN FAMILY ALLOWANCES AND IN GIS IS TO REDUCE GOC SPENDING BY CDOLS 400 MILLION AND REVENUES BY CDOLS 655 MILLION, PRODUCING CDOL 255 MILLION PER YEAR INCREASE IN FEDERAL BUDGET DEFICIT.

4. OTHER BUDGETARY MEASURES: CHRETIEN INDICATED THAT UNEMPLOYMENT INSURANCE COMPENSATION (UIC) PAYMENTS WILL BE REDUCED BY CDOLS 580 MILLION IN FY 1979/80. REDUCTIONS IN GOC PAYMENTS TO THE PROVINCES AND IN SPENDING ON OTHER PROGRAMS WILL RESULT IN SAVINGS OF CDOLS 500 MILLION. GOC WILL ANNOUNCE SHORTLY STIMULATIVE MEASURES FOCUSED ON DIRECT JOB CREATION PROGRAMS, CAPITAL INVESTMENT AND INDUSTRIAL DEVELOPMENT.

5. ENERGY PRICES: GOC WILL REDUCE EXCISE TAX ON GASOLINE FROM 10 CENTS PER GALLON TO 7 CENTS PER GALLON TO OFFSET JULY 1 INCREASE IN CRUDE OIL PRICES WHICH IS TO TAKE EFFECT AT RETAIL LEVEL ON SEPTEMBER 1. MEASURE CAN BE IMPLEMENTED IMMEDIATELY -- WITH PARLIAMENTARY APPROVAL, RETROACTIVE TO DATE OF IMPLEMENTATION, OBTAINED AT LATER DATE. ANNUAL COST IN TERMS OF LOWER TAX REVENUES

ESTIMATED AT CDOLS 165 MILLION. IN ADDITION, GOC PROPOSED THAT INCREASE OF CDOLS 1.00 PER BARREL IN CRUDE OIL PRICES SCHEDULED FOR JANUARY 1, 1979 BE SCRAPPED. IN SEPARATE STATEMENT, ENERGY, MINES AND RESOURCES (EMR) MINISTER GILLESPIE SAID THAT GOC GOAL CONTINUES TO BE LET CRUDE OIL PRICES RISE TO WORLD LEVELS, BUT NOT TO PERMIT CANADIAN PRICE TO EXCEED WEIGHTED AVERAGE PRICE IN U.S., LEST CANADIAN INDUSTRY BE PLACED AT COMPETITIVE DIS-ADVANTAGE VIS-A-VIS U.S. GILLESPIE INDICATED THAT INCREASE IN CRUDE PRICE SCHEDULED FOR JANUARY WOULD HAVE PUSHED CANADIAN PRICE ABOVE COMPOSITE U.S. PRICE. OIL FROM NON-CONVENTIONAL SOURCES (EG. TAR SANDS) WILL

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PAGE 01 OTTAWA 04213 02 OF 03 260020Z
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C O N F I D E N T I A L SECTION 02 OF 03 OTTAWA 04213

CONTINUE TO SELL AT WORLD PRICES.

6. GOC PROPOSED THAT PRICE OF NATURAL GAS BE DEREGULATED AS OF JANUARY 1, 1979 TO ENABLE NATURAL GAS PRICES TO FIND THEIR APPROPRIATE LEVEL IN MARKET PLACE WITHIN A DEFINED RANGE. PRICE OF NATURAL GAS ON COMMODITY EQUIVALENT BASIS IS CURRENTLY SET AT 85 PERCENT OF CRUDE OIL PRICE. RECENTLY ANNOUNCED INCREASE TO CDOLS 2.00PER MCF AT TORONTO CITY GATE WILL TAKE PLACE AS AGREED. GOC EXPECTSTHAT DEREGULATION WILL RESULT IN FALL IN PRICE OF

NATURAL GAS RELATIVE TO OIL -- THEREBY INCREASING GAS CONSUMPTION, REDUCING PRESENT SURPLUS OF GAS AND LESSENING DEGREE OF DEPENDENCE ON IMPORTED OIL.

7. OIL PRICE FREEZE AND NATURAL GAS PRICE DEREGULATION MEASURES, HOWEVER, MUST BE AGREED TO BY ALBERTA
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 04213 02 OF 03 260020Z

GOVERNMENT. FEDERAL GOVERNMENT AND GOA HAD AGREED PREVIOUSLY THAT GAS PRICE WOULD BE HELD AT 85 PERCENT OF PARITY WITH CRUDE OIL UNTIL AUGUST 1, 1979 AND THAT CRUDE OIL PRICE WOULD BE INCREASED ONE DOLLAR ON JANUARY 1. INDUSTRY SOURCES IN CALGARY WERE TOLD BY EMR MINISTER GILLESPIE AND HIS DEPUTY, "MICKEY" COHEN, AUGUST 25, THAT BREAKING THIS AGREEMENT IS DELIBERATE ELECTION-YEAR STRATEGY. GOVERNMENT IS NOT GOING TO GET MANY VOTES IN ALBERTA AND THIS TACTIC IS BEST WAY TO GET ALBERTA TO ENERGY-POLICY BARGAINING TABLE. INDUSTRY SOURCES SAY PREMIER LOUGHEED AND GOA ENERGY MINISTER DON GETTY ARE FURIOUS OVER THIS LATEST MOVE BY FEDS. EMR OFFICIALS KNOW THIS AND THEY EXPECT NEGOTIATIONS TO BE A KNOCK DOWN, DRAG OUT AFFAIR.

8. EMR DOES NOT BELIEVE TEMPORARY HALT TO POLICY OF ESCALATING ENERGY PRICES WILL SERIOUSLY UNDERCUT CONSERVATION. EMR MAINTAINS THAT PRICES ARE "ALREADY HIGH ENOUGH TO DO THE JOB."

9. BUDGETARY IMPACT: SPENDING CUTS ANNOUNCED BY CHRETIEN AMOUNT TO CDOLS 1.3 BILLION, BRINGING TOTAL REDUCTION IN PLANNED ANNUAL EXPENDITURE SINCE AUGUST 1 TO CDOLS 3.7 BILLION, MOST OF WHICH WILL TAKE EFFECT IN 1979. FALL IN TAX REVENUES RESULTING FROM REDUCTION IN GASOLINE EXCISE TAX AND CHANGES IN SOCIAL BENEFITS COMES TO JUST OVER CDOLS 800 MILLION PER YEAR.

10. MACRO-ECONOMIC IMPACT: MACRO-ECONOMIC IMPACT OF POLICY PACKAGE STILL UNCERTAIN SINCE IMPORTANT STIMULATORY MEASURES YET TO BE ANNOUNCED. SO FAR IT APPEARS THAT IMPACT WILL BE NEUTRAL OR SLIGHTLY STIMULATORY THIS YEAR, TURNING SOMEWHAT MORE RESTRICTIVE IN CY 1979.

CONFIDENTIAL

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PAGE 03 OTTAWA 04213 02 OF 03 260020Z

11. COMMENT: CHRETIEN'S STATEMENT MAINTAINED MOMENTUM OF GOVERNMENT ECONOMIC POLICY ANNOUNCEMENTS KICKED OFF

AUGUST 1 BY PRIME MINISTER TRUDEAU (REF B) AND FOLLOWED BY TREASURY BOARD PRESIDENT ANDRAS' AUGUST 16 STATEMENT ON REDUCED SPENDING (REF A). CHRETIEN MENTIONED THAT HE AND HIS COLLEAGUES WOULD BE ANNOUNCING MORE NEW INITIATIVES IN COMING DAYS. EXERCISE IS CLEARLY BEING PACED TO GENERATE MAXIMUM MEDIA BLITZ AND TO KEEP OPPOSITION OFF BALANCE AND RUNNING HARD JUST TO KEEP UP WITH LATEST POLICY DISCLOSURES. ANNOUNCEMENTS HAVE BEEN SCHEDULED AT LAST MINUTE AND TIMED FOR EVENING HOURS TO GUARANTEE FULLEST IMPACT ON TV NEWSCASTS AND MORNING PAPERS AND LEAVE LITTLE OPPORTUNITY FOR CLOSE ANALYSIS OR OPPOSITION REACTION.

12. PROGRESSIVE CONSERVATIVE (PC) LEADERS BELIEVE THEY ARE WATCHING "TEXTBOOK STUDY" IN PARLIAMENTARY DEMOCRACY AS INCUMBENTS MANIPULATE THE LEVERS OF POWER FOR THEIR OWN PURPOSES ON EVEN OF CALLING ELECTIONS. AS MONTREAL GAZETTE COMMENTED, "THE WHOLE EXERCISE HAS BEEN MORE LIKE THE UNVEILING OF PLANKS IN A POLITICAL PARTY'S PLATFORM DURING AN ELECTION CAMPAIGN THAN THE RATIONAL DEVELOPMENT OF A COHERENT ECONOMIC POLICY."

13. INDICATIONS THAT CUTS IN BILINGUAL BONUS FOR CIVIL SERVANTS, FAMILY ALLOWANCE AND UNEMPLOYMENT INSURANCE ARE NOT INTENDED FOR IMPLEMENTATION UNTIL AFTER CHRISTMAS, WHILE BENEFITS SUCH AS REDUCTION OF GASOLINE EXCISE TAXES WILL GO INTO EFFECT IMMEDIATELY AND WILL FEED SPECULATION THAT CALL IS IMMINENT FOR FALL ELECTIONS- WITH OCTOBER 30 OR NOVEMBER 6 CURRENTLY SEEN AS MOST LIKELY DATES. MOREOVER, PACKAGE CONTAINS MEASURES WHICH WILL APPEAL TO BOTH LIBERAL AND CONSERVATIVE VOTERS. PAUSE IN RISE OF GASOLINE PRICES AND ROBIN HOOD-LIKE

CONFIDENTIAL

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PAGE 01 OTTAWA 04213 03 OF 03 260022Z
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C O N F I D E N T I A L SECTION 03 OF 03 OTTAWA 04213

CHANGES IN SOCIAL BENEFITS WILL HELP LOWER AND MIDDLE
INCOME GROUPS, WHILE CUTS IN GOVERNMENT SPENDING AND
PROMISE OF INVESTMENT INCENTIVES SHOULD BE WELCOMED BY
BUSINESS COMMUNITY. STRATEGISTS IN BOTH MAJOR PARTIES
HAVE LONG SEEN ECONOMIC ISSUES AS TRUDEAU'S MOST
VULNERABLE POINT, AND SUBSTANCE OF PRESENT DECISIONS
MAY BE LESS IMPORTANT POLITICALLY THAN IMAGE WHICH IS
BEING CAREFULLY NOURISHED OF DECISIVE GOVERNMENT COMING
CONFIDENTLY TO GRIPS WITH DIFFICULT ECONOMIC PROBLEMS.
FOR ITS PART, PC WILL TAKE LINE THAT, AFTER TEN YEARS
IN POWER, TRUDEAU GOVERNMENT MUST TAKE FULL
RESPONSIBILITY FOR ECONOMIC DISTRESS IT IS TRYING
BELATEDLY TO REDRESS. PLACKE

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